

Auditor-General of South Africa

# Indaka Local Municipality – Audit report 2014-15

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Indaka Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Indaka Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Indaka Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matter**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Material impairments**

8. As disclosed in note 13 to the financial statements, material impairment on outstanding debtors to the amount of R2,47 million (2014: R1,96 million) were incurred as a result of the municipality not implementing adequate processes for the collection of outstanding debtors.

### **Additional matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

10. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Material under-spending of the budget**

11. As disclosed in note 50 to the financial statements, the municipality has materially underspent the capital budget to the amount of R19,13 million. Consequently, the municipality had not fully achieved on its planned objectives relating to promote access to basic service delivery.

## **Report on other legal and regulatory requirements**

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2015.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priority are as follows:

### **Basic service delivery and infrastructure development**

#### **Reliability of reported performance information**

18. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 44% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures due to the lack of relevant documentation.

### **Additional matters**

19. I draw attention to the following matters:

#### **Achievement of planned targets**

20. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs 18 of this report.

#### **Adjustment of material misstatements**

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the basic service delivery and infrastructure development priority. As management subsequently corrected only some

of the misstatements, the uncorrected misstatements resulted in material findings on the reliability of the reported performance information.

## Unaudited supplementary schedules

22. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Strategic planning and performance management

24. The performance management system and related controls were not maintained as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed as required by sections 38 of the Municipal System Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the Municipal planning and performance management regulations.

### Procurement and contract management

25. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply chain management (SCM) regulation 17(a) & (c).
26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply chain management SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

### Expenditure management

27. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

### Conditional grants

28. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure, Municipal Systems Improvement and Local Government Financial Management Grant allocation, as required by section 12(5) of the DoRA.

### Revenue management

29. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

## **Consequence management**

**30. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.**

## **Internal control**

**31. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.**

## **Leadership**

**32. Leadership did not provide adequate oversight and monitoring controls in ensuring that effective measures were taken to address previous findings on supply chain management, as well as findings on predetermined objectives and compliance with legislation. This was due to instability in leadership relating to suspensions of the accounting officer and the mayor during the year and the vacancy of the performance manager.**

## **Financial and performance management**

**33. Senior management did not implement proper record management systems for the maintenance of documents supporting reported performance and adequate reviews and monitoring controls over compliance with legislation and supply chain management regulations.**

## Other reports

### Investigations

34. A report on the investigation of allegations of maladministration against the municipal manager was tabled by the Department of Co-operative Governance and Traditional Affairs (COGTA) on the 20 February 2015. COGTA concluded on their report that council must implement the recommendations on the findings contained in the report against on the municipal manager. A divided council resolved on the 20 February 2015 that the municipal manager be suspended with immediate effect. An arbitration hearing was held by the South African Local Bargaining Council whereby on the 08 June 2015 the municipal manager was found to be unfairly suspended and should be re-instated.

*Auditor-General*

Pietermaritzburg

30 November 2015



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